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July 1, 2008

**ADVICE LETTER 2003-E / 1782-G**  
(U902-M)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**SUBJECT: REVISIONS TO ELECTRIC AND GAS PRELIMINARY STATEMENTS IN COMPLIANCE WITH D.08-05-035**

San Diego Gas & Electric Company (SDG&E) hereby submits for approval the following revisions to its electric and gas tariffs as shown in the enclosed attachment.

**PURPOSE**

In accordance with California Public Utilities Commission (Commission) Decision (D.) 08-05-035 dated May 29, 2008, SDG&E is revising the Electric Distribution and Gas Performance Base Ratemaking (PBR) Mechanism contained in Section IV of SDG&E's Electric Preliminary Statement and Section VI of SDG&E's Gas Preliminary Statement, to describe the new Cost of Capital Mechanism (CCM) which, in part, determines the calculation for automatic adjustments to SDG&E's Return on Common Equity (ROE).

**BACKGROUND**

SDG&E's previous cost of capital mechanism, the Market Index Capital Adjustment Mechanism (MICAM) was first adopted in D.96-06-055 and modified by an all-party settlement in D.03-09-008. Under the MICAM, SDG&E's ROE increased, decreased, or remained unchanged depending on the movement of utility bond yields. Each September, SDG&E compared the 6 month March through August average of Mergent's Aa utility bond yield to a benchmark. The benchmark represented, depending on recent events, either (a) the 6 month Aa bond yield average of the year when SDG&E last participated in a cost of capital proceeding, or (b) the 6 month Aa bond yield average of the year that a MICAM trigger event occurred. In any year in which the difference between the current six-month average and the benchmark exceeded 100-basis points, SDG&E's ROE would be automatically adjusted by one-half of the difference between the Aa utility bond average and the benchmark.

SDG&E's Cost of Capital Phase 2 proceeding A.07-05-007 addressed mechanisms that could replace the existing cost of capital filings. The issue was raised to determine whether a mechanism could be adopted to maintain fair and reasonable capital structures and ROEs for the major energy utilities while reducing ROE proceedings and simplifying workload requirements and regulatory costs. D.08-05-035 established a uniform multi-year CCM for SDG&E and other California Investor Owned Electric Utilities. The adopted CCM is intended to streamline the cost of capital process and provide greater predictability of the utilities' cost of capital by eliminating the use of interest rate forecasts and disputes concerning interest rate

levels and trends, as well as uncertainties associated with conflicting perceptions of financial markets and the return requirements of investors.

### **DISCUSSION**

The CCM replaces SDG&E's current cost of capital trigger mechanism, MICAM. Though relatively similar, CCM differs from MICAM in certain key respects:

- The CCM employs a three year cycle, the Utility must submit a full cost of capital application on April 20<sup>th</sup> of every third year with the fourth year being a test year<sup>1</sup>;
- the automatic ROE trigger adjustment mechanism will be based on the 12 month (October through September) average of Moody's A rated utility bond yields (12 month average)<sup>2</sup>; and
- On October 15 of the year in which a trigger event occurs, a Tier 2 advice letter is filed that updates the ROE and related rate adjustments to become effective on January 1 of the following year.

The MICAM is currently summarized in SDG&E's electric and gas Preliminary Statements. Thus, SDG&E has revised these sections to accurately describe the automatic ROE trigger adjustment for the CCM as adopted in D.08-05-035. Furthermore, SDG&E has removed the description from the PBR Section from the electric and gas Preliminary Statements and relocated it to a newly established Section titled Cost of Capital Mechanism.

This filing will not increase any rate or charge, cause the withdrawal of service, or conflict with any rate schedule or rule.

### **EFFECTIVE DATE**

SDG&E believes this Advice Letter is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval) pursuant to GO 96-B. Therefore, SDG&E respectfully requests that this compliance filing become effective on July 31, 2008, thirty days from the date filed.

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<sup>1</sup> D.08-05-035 allows SDG&E to file a full cost of capital application outside of the CCM process upon an extraordinary or catastrophic event that materially impacts the cost of capital / capital structure. The decision also includes a provision to file a capital structure adjustment application during the three-year interval between full cost of capital applications in the event of a change to SDG&E's credit rating. If SDG&E's credit rating changes, the utility may update the comparative benchmark and present subsequent tariff modifications by way of a Tier 2 advice filing.

<sup>2</sup> Pursuant to D.08-05-035 Conclusion of Law 11, Moody's Aa utility bond interest rates should be used for those utilities under the CCM having an AA credit rating or higher, Moody's A utility bond interest rates should be used for those utilities having an A credit rating, and Moody's Baa utility bond interest rates for utilities having a BBB credit rating or lower. At the time of this Advice Letter SDG&E has an A credit rating; thus, the initial CCM benchmark rate is 6.02% based on Moody's October 2006 - September 2007 average of the A-rated utility bond yield.

**PROTEST**

Anyone may protest this Advice Letter to the California Public Utilities Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and must be received within 20 days of the date this Advice Letter was filed with the Commission. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division  
Attention: Tariff Unit  
505 Van Ness Avenue  
San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of both Honesto Gatchalian ([inj@cpuc.ca.gov](mailto:inj@cpuc.ca.gov)) and Maria Salinas ([mas@cpuc.ca.gov](mailto:mas@cpuc.ca.gov)) of the Energy Division. A copy of the protest should also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

Attn: Todd Cahill  
Regulatory Tariff Manager  
8330 Century Park Court, Room 32C  
San Diego, CA 92123-1548  
Facsimile No. (858) 654-1788  
E-mail: [tcahill@semprautilities.com](mailto:tcahill@semprautilities.com)

**NOTICE**

A copy of this filing has been served on the utilities and interested parties shown on the attached list, including interested parties to service list A.07-05-007, by either providing them a copy electronically or by mailing them a copy hereof, properly stamped and addressed.

Address changes should be directed to SDG&E Tariffs by facsimile at (858) 654-1788 or by e-mail at [SDG&ETariffs@semprautilities.com](mailto:SDG&ETariffs@semprautilities.com).

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KEN DEREMER  
Director – Tariffs & Regulatory Accounts

(cc list enclosed)

# CALIFORNIA PUBLIC UTILITIES COMMISSION

## ADVICE LETTER FILING SUMMARY ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No. **SAN DIEGO GAS & ELECTRIC (U 902)**

Utility type:

ELC

GAS

PLC

HEAT

WATER

Contact Person: Will Fuller

Phone #: (858) 654-1885

E-mail: wfuller@semprautilities.com

### EXPLANATION OF UTILITY TYPE

ELC = Electric

GAS = Gas

PLC = Pipeline

HEAT = Heat

WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 2003-E / 1782-G

Subject of AL: Revisions to Electric and Gas Preliminary Statements in Compliance with D.08-05-035

Keywords (choose from CPUC listing): Cost of Capital, Preliminary Statement

AL filing type:  Monthly  Quarterly  Annual  One-Time  Other \_\_\_\_\_

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

D.08-05-035

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL N/A

Summarize differences between the AL and the prior withdrawn or rejected AL<sup>1</sup>: N/A

Does AL request confidential treatment? If so, provide explanation: \_\_\_\_\_

Resolution Required?  Yes  No

Tier Designation:  1  2  3

Requested effective date: 7/31/08

No. of tariff sheets: 24

Estimated system annual revenue effect (%): N/A

Estimated system average rate effect (%): N/A

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected: See Table of Contents

Service affected and changes proposed<sup>1</sup>: N/A

Pending advice letters that revise the same tariff sheets: N/A

**Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:**

**CPUC, Energy Division**

**Attention: Tariff Unit**

**505 Van Ness Ave.,**

**San Francisco, CA 94102**

**mas@cpuc.ca.gov and jnj@cpuc.ca.gov**

**San Diego Gas & Electric**

**Attention: Todd Cahill**

**8330 Century Park Ct, Room 32C**

**San Diego, CA 92123**

**tcahill@semprautilities.com**

<sup>1</sup> Discuss in AL if more space is needed.

General Order No. 96-B  
ADVICE LETTER FILING MAILING LIST

cc: (w/enclosures)

Public Utilities Commission

DRA

D. Appling  
S. Cauchois  
J. Greig  
R. Pocta  
W. Scott

Energy Division

P. Clanon  
S. Gallagher  
H. Gatchalian  
D. Lafrenz  
M. Salinas

CA. Energy Commission

F. DeLeon  
R. Tavares

Alcantar & Kahl LLP

K. Harteloo

American Energy Institute

C. King

APS Energy Services

J. Schenk

BP Energy Company

J. Zaiontz

Barkovich & Yap, Inc.

B. Barkovich

Bartle Wells Associates

R. Schmidt

Braun & Blaising, P.C.

S. Blaising

California Energy Markets

S. O'Donnell  
C. Sweet

California Farm Bureau Federation

K. Mills

California Wind Energy

N. Rader

CCSE

S. Freedman  
J. Porter

Children's Hospital & Health Center

T. Jacoby

City of Chula Vista

M. Meacham  
E. Hull

City of Poway

R. Willcox

City of San Diego

J. Cervantes  
G. Lonergan  
M. Valerio

Commerce Energy Group

V. Gan

Constellation New Energy

W. Chen

CP Kelco

A. Friedl

Davis Wright Tremaine, LLP

E. O'Neill  
J. Pau

Dept. of General Services

H. Nanjo  
M. Clark

Douglass & Liddell

D. Douglass  
D. Liddell  
G. Klatt

Duke Energy North America

M. Gillette

Dynegy, Inc.

J. Paul

Ellison Schneider & Harris LLP

E. Janssen

Energy Policy Initiatives Center (USD)

S. Anders

Energy Price Solutions

A. Scott

Energy Strategies, Inc.

K. Campbell  
M. Scanlan

Goodin, MacBride, Squeri, Ritchie & Day

B. Cragg  
J. Heather Patrick  
J. Squeri

Goodrich Aerostructures Group

M. Harrington

Hanna and Morton LLP

N. Pedersen

Itsa-North America

L. Belew

J.B.S. Energy

J. Nahigian

Luce, Forward, Hamilton & Scripps LLP

J. Leslie

Manatt, Phelps & Phillips LLP

D. Huard  
R. Keen

Matthew V. Brady & Associates

M. Brady

Modesto Irrigation District

C. Mayer

Morrison & Foerster LLP

P. Hanschen

MRW & Associates

D. Richardson

OnGrid Solar

Andy Black

Pacific Gas & Electric Co.

J. Clark  
M. Huffman  
S. Lawrie  
E. Lucha

Pacific Utility Audit, Inc.

E. Kelly

R. W. Beck, Inc.

C. Elder

School Project for Utility Rate Reduction

M. Rochman  
Shute, Mihaly & Weinberger LLP

O. Armi

Solar Turbines

F. Chiang

Sutherland Asbill & Brennan LLP

K. McCrea

Southern California Edison Co.

M. Alexander  
K. Cini  
K. Gansecki  
H. Romero

TransCanada

R. Hunter  
D. White

TURN

M. Florio  
M. Hawiger

UCAN

M. Shames

U.S. Dept. of the Navy

K. Davoodi  
N. Furuta  
L. DeLaacruz

Utility Specialists, Southwest, Inc.

D. Koser

Western Manufactured Housing

Communities Association

S. Dey

White & Case LLP

L. Cottle

Interested Parties

A.07-05-007

ATTACHMENT A  
ADVICE LETTER 2003-E

Cal. P.U.C. Sheet No.	Title of Sheet	Canceling Cal. P.U.C. Sheet No.
Revised 20688-E	PRELIMINARY STATEMENT, IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM, Sheet 1	Revised 18120-E
Revised 20689-E	PRELIMINARY STATEMENT, IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM, Sheet 10	Revised 20359-E
Revised 20690-E	PRELIMINARY STATEMENT, IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM, Sheet 11	Revised 18130-E
Revised 20691-E	PRELIMINARY STATEMENT, IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM, Sheet 12	Revised 18131-E
Revised 20692-E	PRELIMINARY STATEMENT, IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM, Sheet 13	Revised 18132-E
Revised 20693-E	PRELIMINARY STATEMENT, IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM, Sheet 14	Revised 18133-E
Revised 20694-E	PRELIMINARY STATEMENT, IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM, Sheet 15	Revised 18134-E
Revised 20695-E	PRELIMINARY STATEMENT, IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM, Sheet 16	Original 18135-E
Revised 20696-E	PRELIMINARY STATEMENT, IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM, Sheet 17	Revised 18566-E
Original 20697-E	PRELIMINARY STATEMENT, VII. COST OF CAPITAL MECHANISM (CCM), Sheet 1	
Revised 20698-E	TABLE OF CONTENTS, Sheet 1	Revised 20686-E
Revised 20699-E	TABLE OF CONTENTS, Sheet 3	Revised 20643-E



**PRELIMINARY STATEMENT**

Sheet 1

IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

A. OVERVIEW

Pursuant to Decision D.05-03-023, the Electric Distribution and Gas Performance-Based Ratemaking (PBR) Mechanism consists of 1) a base margin indexing mechanism; 2) Z-Factor; 3) an earnings sharing mechanism; 4) a cost of capital trigger mechanism; 5) offramp provisions; 6) a revenue adjustment mechanism; 7) performance indicators; and 8) ratemaking procedures.

1. PBR Base Margin Indexing Mechanism - The indexing mechanism allows SDG&E to adjust, subject to a minimum (floor level) and maximum (ceiling level) increase, its authorized base margin using a CPI-All Urban Consumers forecast as published by Global Insight. The PBR indexing mechanism is also subject to certain exclusions and "Z Factor Adjustments" as described herein.
2. Z-Factor – Z Factors are exogenous events, unforeseen at the implementation or PBR, largely uncontrollable by management, having a material and disproportionate impact on SDG&E.
3. PBR Earnings Sharing Mechanism - The earnings sharing mechanism provides sharing of SDG&E's annual earnings, adjusted for exclusions and adjustments as described herein, that exceed 50 basis points above its currently authorized Rate of Return (ROR). The mechanism also provides for an automatic suspension of the PBR mechanism if the overall ROR is more than 300 basis points above or below authorized the ROR.
4. Offramp Provisions - In addition to the offramp provisions in the earnings sharing and cost of capital mechanisms, SDG&E may file a motion seeking suspension of the PBR mechanism if net operating income for one year is 175 basis points (1.75%) below SDG&E's authorized ROR. ORA, or other parties may file a motion seeking suspension of the PBR mechanism if net operating income for one year is 175 basis points (1.75%) above SDG&E's authorized ROR.
5. Revenue Adjustment Mechanism – All base rate revenues shall be recoverable by SDG&E through the operation of a regulatory balancing account mechanism, so that the recovery of the approved revenue requirement is not affected by variances in sales forecasts.
6. Performance Indicators – Performance rewards or penalties are accrued based on the utility's performance in the categories of employee safety, service quality, and system reliability. The total electric distribution and gas performance indicator reward or penalty that may be accrued in any year of the PBR mechanism, beginning with 2005, shall not exceed \$13,780,000.
7. Ratemaking Procedures – The ratemaking procedures establish the requirements for filing annual rate adjustments, the filing of the annual PBR performance report and the accounting for approved rewards and penalties and earnings sharing amounts for both electric and gas.

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**PRELIMINARY STATEMENT**

IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

E. EARNINGS SHARING MECHANISM (Continued)

4. Actual Weighted Average Base Margin Rate Base (Continued)

The initial benchmark rate of return was 8.18%. D.07-12-049 adopted a revised benchmark rate of return of 8.40%, effective January 1, 2008.

5. Example of Revenue Sharing Calculation

Let Achieved Base Margin ROR equal 9.78%, i.e., 160 bps above the benchmark ROR.  
Let Actual Weighted Average Base Margin Rate Base equal \$2,700 million.  
Total Achieved Base Margin Return above the benchmark equals \$43.2 million.

The ratepayer share before grossing-up equals:

$$(\$13.5 \text{ million} * 75\%) + (\$6.75 \text{ million} * 65\%) + (\$6.75 \text{ million} * 55\%) + (\$2.7 \text{ million} * 45\%) = \$19.438 \text{ million}$$

Since  $r = \$19.438 / 43.2 = 0.450$ , the grossed-up ratepayer credit (assuming an illustrative 0.43072 combined income tax and F&U factor) =  $\$19.438 \text{ million} / (1 - 0.450 * 0.43072) = \$24.111 \text{ million}$

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10H7

Advice Ltr. No. 2003-E

Decision No. D.08-05-035

Issued by  
**Lee Schavrien**  
Senior Vice President  
Regulatory Affairs

Date Filed Jul 1, 2008

Effective Jul 31, 2008

Resolution No. \_\_\_\_\_



**PRELIMINARY STATEMENT**

IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

F. OFFRAMP PROVISIONS

- a. Rate of Return Offramp: SDG&E or ORA (or any other party) may file a motion seeking suspension of the earnings sharing mechanism if for one year net operating income is 175 basis points (1.75%) below SDG&E's authorized rate of return. ORA (or any other party) may file a motion seeking suspension of the earnings sharing mechanism if for one year net operating income is 175 basis points (1.75%) above SDG&E's authorized rate of return. If the motion is granted, suspension of the earnings sharing mechanism would be required. If SDG&E reports return of 300 or more basis points (3%) above or below its authorized rate of return for one year, the earnings sharing mechanism will automatically be suspended, and the Commission will conduct a formal regulatory review to determine what, if any, changes in the ratemaking mechanism are required.
- b. Cost of Capital Offramp: in the event of a change equal to or exceeding the cost of capital trigger mechanism, the PBR mechanism will be modified as described in F above.

G. REVENUE ADJUSTMENT MECHANISM

On a monthly basis, actual base margin revenues shall be recorded to the Electric Distribution Fixed Cost Account (EDFCA) and the Gas Core and Noncore Fixed Cost Accounts (CFCA, NFCA) for electric and gas, respectively, and balanced against the monthly portion of the authorized base margin revenue requirement.

H. PERFORMANCE INDICATORS

The total amount of electric distribution and gas performance indicator reward or penalty in any year of the PBR Mechanism, beginning with 2005, shall not exceed thirteen million, seven hundred, eighty thousand dollars (\$13.780 million). The performance reward or penalty will be based on the utility's performance in the following categories:

Performance Rewards/(Penalties) equals the sum of:

- (a) Employee Safety (Section I.1.)
- (b) Customer Service Indicators and Service Guarantee (Section I.2.)
- (c) System Reliability (Three Indicators) (Section I.3.)

1. Employee Safety:

The Employee Safety performance indicator measures SDG&E performance based on its OSHA rate, a metric established by the Federal Occupational Safety and Health Act (OSHA). The OSHA rate is the number of incidents per 200,000 hours worked. Reward/penalty mechanism – The employee safety indicator establishes a deadband from 5.55 to 6.07 for which no reward or penalty will apply. Beyond the deadband, SDG&E is authorized an incentive rate or \$12,500 per 0.01 change in the rate for a maximum reward or penalty of \$2.18 million. Refer to the table below for details. Rewards or penalties received for employee safety performance are allocated 77% to the electric department and 23% to the gas department revenue requirements based on the percent of authorized operating revenue as provided for in the Phase 1 Cost of Service decision (D.04-12-015).

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**PRELIMINARY STATEMENT**

IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

H. PERFORMANCE INDICATORS (Continued)

1. Employee Safety (Continued)

Employee Safety Table:

Benchmark: 5.81 OSHA - reportable frequency rate

Deadband: 5.55 – 6.07

Liveband: +/- 1.75

Unit of change: 0.01

Incentive/(Penalty) per unit: \$12,500 outside the deadband

Maximum incentive/(penalty): +/- \$2.18 million

SDG&E shall also track reportable incidents in the following four categories: meter reading, customer field service, distribution and office. SDG&E shall report this information in its next General Rate Case proceeding.

1. Customer Service Indicators and Service Guarantee

a. Service Guarantee:

SDG&E shall continue its current Service Guarantee. If the utility is unable to meet an appointment commitment with a customer for services at the customer's premises when access is required, SDG&E will credit \$50 to the customer's account. Appointments can be all day or they may be made within appointment windows (a.m./p.m.). The credit does not apply if the customer is notified at least four hours before the end of the appointment period. For establishment of service (turn-on orders), the customer will be credited with the applicable service establishment charge (\$15 or \$30) rather than the \$50. The guarantee does not apply for gas pilot light service or if the utility documents that the reason for the missed appointment was due to natural disaster, labor strike or the service person was called off to work on an Emergency Order. Emergency Orders are excluded as a result of the utility's public safety obligations and include the following events: 1) Fire or explosion; 2) Broken or blowing gas line; 3) High gas pressure; 4) Emergency carbon monoxide; and, 5) Hazardous leaks.

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Advice Ltr. No. 2003-E

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**Lee Schavrien**  
Senior Vice President  
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**PRELIMINARY STATEMENT**

IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

H. PERFORMANCE INDICATORS (Continued)

2. Customer Service Indicators and Service Guarantee (Continued)

a. Service Guarantee (Continued)

When an individual customer requests a date for a permanent new service establishment, the utility will turn on new service on the day promised (prior to midnight) or credit the customer's electric instead of the \$50 stated above. The credit does not apply if at least 24 hours notice of a date change is given to the customer. Notice given on an answering machine or to another number designated by the customer is sufficient. For the guarantee to be valid, there must be: 1) Open access to the facility and the meter panel or gas service; 2) All required inspections must be completed and approved; and, 3) No threats or harm to utility employees.

b. Customer Service Indicators:

SDG&E's performance on four Customer Service performance indicators will be measured to ensure appropriate service quality levels are maintained under PBR. Rewards or penalties received for customer satisfaction performance are allocated 77% to the electric department and 23% to the gas department revenue requirements based on the percent of authorized operating revenue as provided for in D.04-12-015. The four indicators that will be measured are as follows:

- (1) Phone / Office Contact Satisfaction – composite measure of customers' satisfaction with their overall experience with SDG&E's Customer Contact Center and Branch Offices.
- (2) Field Visit Satisfaction – measure of customer satisfaction with their overall experience with a field service visit.
- (3) Call Center Responsiveness – measure of how quickly SDG&E responds to customer calls.
- (4) Field Service Order Appointments Provided / Percent Made – measure of the frequency with which SDG&E provides customers with service window appointments and the frequency with which SDG&E meets those commitments.

Reward / penalty mechanism – For Phone / Office Contact, Field Visit, and Call Center Responsiveness, SDG&E is authorized a specific target and deadband for which no reward or penalty will apply. For each of the three indicators, performance beyond the deadband triggers a reward or penalty up to a maximum amount. Refer to individual tables below for details.

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Advice Ltr. No. 2003-E

Decision No. D.08-05-035

Issued by  
**Lee Schavrien**  
Senior Vice President  
Regulatory Affairs

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Resolution No. \_\_\_\_\_

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**PRELIMINARY STATEMENT**

Sheet 14

IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

H. PERFORMANCE INDICATORS (Continued)

2. Customer Service Indicators and Service Guarantee (Continued)

b. Customer Service Indicators: (Continued)

Phone / Office Contact Satisfaction Table:

Target.....83.4%  
Deadband.....84.4% – 82.4%  
Reward/(Penalty) Liveband...+ /- 5%  
Incentive Rate.....\$10,000 / 0.1  
Maximum Reward / Penalty...\$500,000

Field Visit Satisfaction Table:

Target.....94.1%  
Deadband.....95.1% – 93.1%  
Reward/(Penalty) Liveband...+ /- 5%  
Incentive Rate.....\$10,000 / 0.1  
Maximum Reward / Penalty...\$500,000

Call Center Responsiveness Table:

Target.....80% within 60 seconds  
Deadband.....82% – 78%  
Reward/(Penalty) Liveband...+ /- 5%  
Incentive Rate.....\$30,000 / 0.1  
Maximum Reward / Penalty...\$1,500,000

Field Service Order Appointments Provided/Percent Made:

There are seven bands by which Field Service Order Appointments Provided are assessed in terms of the Percentage of On-Time Arrivals (Percent Made). The maximum Reward or Penalty is + / - \$600,000 and are assessed in increments of \$12,000 per each 0.1% change in Percent On-Time Arrivals (Percent Made) within each of the seven Percent Appointments Provided bands. There is only one deadband area which is found in band > 35%-40% for 99.01-100% On-Time Arrivals Met. The targets, deadbands, and livebands are as follows:

(Continued)

14H7

Advice Ltr. No. 2003-E

Decision No. D.08-05-035

Issued by  
**Lee Schavrien**  
Senior Vice President  
Regulatory Affairs

Date Filed Jul 1, 2008

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Resolution No. \_\_\_\_\_

T



**PRELIMINARY STATEMENT**

IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

H. PERFORMANCE INDICATORS (Continued)

2. Customer Service Indicators and Service Guarantee (Continued)

b. Customer Service Indicators: (Continued)

- 35% or Below: Target: 100%  
Deadband: none  
Liveband: Penalty only 95.01-100% met
- >35-40%: Target: 99.01%  
Deadband: 99.01-100%  
Liveband: Penalty 94.01-99% met.
- >40-45%: Target: 99.01%  
Deadband: none  
Liveband: Penalty 94.01-99% met; Reward 99.01-100% met
- >45-50%: Target: 98.01%  
Deadband: none  
Liveband: Penalty 93.01-98% met; Reward 98.01-100% met
- >50-55%: Target: 97.01%  
Deadband: none  
Liveband: Penalty 92.01-97% met; Reward 97.01-100% met
- >55-60%: Target: 96.01%  
Deadband: none  
Liveband: Penalty 91.01-96% met; Reward 96.01-100% met
- >60%: Target: 95.01%  
Deadband: none  
Liveband: Penalty 90.01-95% met; Reward 95.01-100% met

Customer Service – Monitor Only Indicators

SDG&E's performance on ten performance indicators will be tracked to monitor the service quality levels. SDG&E will submit quarterly data on these indicators on an annual basis, beginning in 2006 to include data for the year 2005. The following monitor-only measures have been adopted per D.05-03-023:

- (1) Level of Busy Signal
- (2) Estimated Meter Reads
- (3) Missed Appointments
- (4) Problem Resolved on First Visit
- (5) Elapsed Time
- (6) Percentage of Abandoned Calls
- (7) Shortest time to CSR
- (8) Gas Emergency Response Time
- (9) Electric Emergency Response Time
- (10) Complaints

(Continued)

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**PRELIMINARY STATEMENT**

IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

H. PERFORMANCE INDICATORS (Continued)

3. System Reliability

Rewards or penalties for system reliability will be determined based on the utility's performance on three separate performance indicators. These indicators are: 1) the System Average Interruption Duration Index (SAIDI) measurement, 2) the System Average Interruption Frequency Index (SAIFI); and, 3) the Momentary Average Interruption Frequency Index (MAIFI). SAIDI measures the duration of electric service forced and sustained interruptions experienced by customers each year, excluding major events and planned outages. SAIFI and MAIFI both measure the frequency of electric distribution forced outages that occur in a year, excluding major events and planned outages. SAIFI measures sustained outages (5 minutes or greater), whereas MAIFI measures momentary outages (less than 5 minutes). Rewards or penalties received for the system reliability performance indicators are allocated 100% to the electric department revenue requirements.

a. Reward/(Penalty) Mechanism: Rewards and Penalties shall be based on the following parameters (Excluding Major Events and Planned Outages):

**Adopted Reliability Incentives**

	<b>SAIDI</b>	<b>SAIFI</b>	<b>MAIFI</b>
Target	68	0.67	0.76
Deadband	+/-2	+/-0.02	+/-0.02
Increment	1	0.01	0.015
Liveband	+/-15	+/- 0.15	+/- 0.30
Reward/(Penalty) per unit	\$250,000	\$250,000	\$50,000
Maximum Reward/(Penalty)	\$3,750,000	\$3,750,000	\$1,000,000

b. Exclusions: The measurement of each of the electric reliability performance indicators excludes planned outages, Major Events, and events that are the direct result of failures in the ISO-controlled bulk power market or other non-utility owned transmission facilities.

Major Events are defined in D.96-09-045 as an event that meets at least one of the following criteria: 1) the event is caused by earthquake, fire or storm of sufficient intensity to give rise to a state of emergency being declared by the government; or, 2) an event that affects more than 15% of the system facilities or 10% of the utility's customers, whichever is less for each event.

(Continued)

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**PRELIMINARY STATEMENT**

IV. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

I. RATEMAKING PROCEDURES

1. Annual Rate Adjustments (ARA's)

SDG&E shall make an annual advice letter filing on or before November 1 to update base margin, according to the Indexing Mechanism (described in Section C), effective January 1 of the following year for each year the PBR is in effect. The advice letter will contain detailed information on forecast calculation using the CPI forecast as published by Global Insight. The filing may also include proposed Z Factor adjustments (described in Section D).

2. Annual PBR Report

SDG&E will file an annual advice letter providing sharable earnings according to the financial sharing mechanism described in Section E and the results of the performance indicators for the previous calendar year. If there are any sharable earnings under the PBR mechanism, the earnings allocated to ratepayers shall be included in rates on January 1 of the subsequent year. If there are any rewards/penalties under the PBR mechanism, the rewards/penalties shall be included in rates on January 1 of the subsequent year upon Commission approval. SDG&E will submit this advice letter on May 1 of the following year, including workpapers detailing operating results for SDG&E's base rates.

3. Rewards and Penalties Balancing Account (RPBA)

Pursuant to Resolution E-3588, the utility shall record rewards and penalties and earnings sharing amounts (net of F&U) under the PBR mechanism to its gas and electric Rewards and Penalties Balancing Account (RPBA). The utility shall file in October of each year an advice letter requesting to amortize the projected RPBA year-end balance in the electric distribution and gas transportation rates effective January 1 of the following year.

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**PRELIMINARY STATEMENT**

Sheet 1

VII. COST OF CAPITAL MECHANISM (CCM)

A. OVERVIEW

Pursuant to Decision D.08-05-035, The Cost of Capital mechanism provides for an adjustment to SDG&E's authorized Return on Common Equity (ROE) if the twelve month average of the A rated utility bond yield changes by more than plus/minus 100 basis points from the benchmark.

B. EFFECTIVE DATE / DURATION

The Cost of Capital Mechanism is established effective May 29, 2008 by the Commission and shall be effective until modified or terminated by further action of the Commission.

C. DESCRIPTION OF MECHANISM

The automatic ROE adjustment mechanism is triggered when the October through September twelve month average of Moody's A rated utility bond yield is more than 100 basis points higher or lower than the benchmark, which is either the October through September average of A utility bond yields from the year of SDG&E's most recent cost of capital proceeding or the most recent year thereafter where the October through September average utility bond yield triggers an automatic adjustment.

Pursuant to Decision D.08-05-035 Conclusion of Law 11, Moody's Aa utility bond interest rates should be used for those utilities under the CCM having an AA credit rating or higher, Moody's A utility bond interest rates should be used for those utilities having an A credit rating, and Moody's Baa utility bond interest rates for utilities having a BBB credit rating or lower. SDG&E has an A credit rating. The Moody's October 2006 - September 2007 average of the A-rated utility bond yield is 6.02%. Should SDG&E's credit rating change during the three-year interval between full cost of capital applications, SDG&E may file a capital structure adjustment application.

When an automatic adjustment is triggered, the costs of capital components are updated and a new rate of return is computed as follows:

- a. The return on common equity is adjusted by one-half of the difference between the A utility bond average and the benchmark.
- b. Costs of long-term debt and preferred stock are updated to reflect actual August month-end embedded costs in the trigger year, forecasted interest rates for variable long-term debt, and new long-term debt and preferred stock scheduled to be issued.
- c. The currently authorized capital structure is used to calculate an updated rate of return, which is filed by advice letter on October 15 of the trigger year to be effective January 1 of the following year.

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**PRELIMINARY STATEMENT**

Sheet 1

VI. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

A. OVERVIEW

Pursuant to Decision D.05-03-023, the Electric Distribution and Gas Performance-Based Ratemaking (PBR) Mechanism consists of 1) a base margin indexing mechanism; 2) Z-Factor; 3) an earnings sharing mechanism; 4) a cost of capital trigger mechanism; 5) offramp provisions; 6) a revenue adjustment mechanism; 7) performance indicators; and 8) ratemaking procedures.

1. PBR Base Margin Indexing Mechanism - The indexing mechanism allows SDG&E to adjust, subject to a minimum (floor level) and maximum (ceiling level) increase, its authorized base margin using a CPI-All Urban Consumers forecast as published by Global Insight. The PBR indexing mechanism is also subject to certain exclusions and "Z Factor Adjustments" as described herein.
2. Z-Factor – Z Factors are exogenous events, unforeseen at the implementation or PBR, largely uncontrollable by management, having a material and disproportionate impact on SDG&E.
3. PBR Earnings Sharing Mechanism - The earnings sharing mechanism provides sharing of SDG&E's annual earnings, adjusted for exclusions and adjustments as described herein, that exceed 50 basis points above its currently authorized Rate of Return (ROR). The mechanism also provides for an automatic suspension of the PBR mechanism if the overall ROR is more than 300 basis points above or below authorized the ROR.
4. Offramp Provisions - In addition to the offramp provisions in the earnings sharing and cost of capital mechanisms, SDG&E may file a motion seeking suspension of the PBR mechanism if net operating income for one year is 175 basis points (1.75%) below SDG&E's authorized ROR. ORA, or other parties may file a motion seeking suspension of the PBR mechanism if net operating income for one year is 175 basis points (1.75%) above SDG&E's authorized ROR.
5. Revenue Adjustment Mechanism – All base rate revenues shall be recoverable by SDG&E through the operation of a regulatory balancing account mechanism, so that the recovery of the approved revenue requirement is not affected by variances in sales forecasts.
6. Performance Indicators – Performance rewards or penalties are accrued based on the utility's performance in the categories of employee safety, service quality, and system reliability. The total electric distribution and gas performance indicator reward or penalty that may be accrued in any year of the PBR mechanism, beginning with 2005, shall not exceed \$13,780,000.
7. Ratemaking Procedures – The ratemaking procedures establish the requirements for filing annual rate adjustments, the filing of the annual PBR performance report and the accounting for approved rewards and penalties and earnings sharing amounts for both electric and gas.

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**PRELIMINARY STATEMENT**

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VI. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

E. EARNINGS SHARING MECHANISM (Continued)

4. Actual Weighted Average Base Margin Rate Base (Continued)

The initial benchmark rate of return was 8.18%. D.07-12-049 adopted a revised benchmark rate of return of 8.40% effective January 1, 2008.

5. Example of Revenue Sharing Calculation

Let Achieved Base Margin ROR equal 9.78%, i.e., 160 bps above the benchmark ROR.  
Let Actual Weighted Average Base Margin Rate Base equal \$2,700 million.  
Total Achieved Base Margin Return above the benchmark equals \$43.2 million.

The ratepayer share before grossing-up equals:

$$(\$13.5 \text{ million} * 75\%) + (\$6.75 \text{ million} * 65\%) + (\$6.75 \text{ million} * 55\%) + (\$2.7 \text{ million} * 45\%) = \$19.438 \text{ million}$$

Since  $r = \$19.438 / 43.2 = 0.450$ , the grossed-up ratepayer credit (assuming an illustrative 0.43072 combined income tax and F&U factor) =  $\$19.438 \text{ million} / (1 - 0.450 * 0.43072) = \$24.111 \text{ million}$

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**PRELIMINARY STATEMENT**

Sheet 11

VI. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

F. OFFRAMP PROVISIONS

- a. Rate of Return Offramp: SDG&E or ORA (or any other party) may file a motion seeking suspension of the earnings sharing mechanism if for one year net operating income is 175 basis points (1.75%) below SDG&E's authorized rate of return. ORA (or any other party) may file a motion seeking suspension of the earnings sharing mechanism if for one year net operating income is 175 basis points (1.75%) above SDG&E's authorized rate of return. If the motion is granted, suspension of the earnings sharing mechanism would be required. If SDG&E reports return of 300 or more basis points (3%) above or below its authorized rate of return for one year, the earnings sharing mechanism will automatically be suspended, and the Commission will conduct a formal regulatory review to determine what, if any, changes in the ratemaking mechanism are required.
- b. Cost of Capital Offramp: in the event of a change equal to or exceeding the cost of capital trigger mechanism, the PBR mechanism will be modified as described in F above.

G. REVENUE ADJUSTMENT MECHANISM

On a monthly basis, actual base margin revenues shall be recorded to the Electric Distribution Fixed Cost Account (EDFCA) and the Gas Core and Noncore Fixed Cost Accounts (CFCA, NFCA) for electric and gas, respectively, and balanced against the monthly portion of the authorized base margin revenue requirement.

H. PERFORMANCE INDICATORS

The total amount of electric distribution and gas performance indicator reward or penalty in any year of the PBR Mechanism, beginning with 2005, shall not exceed thirteen million, seven hundred, eighty thousand dollars (\$13.780 million). The performance reward or penalty will be based on the utility's performance in the following categories:

Performance Rewards/(Penalties) equals the sum of:

- (a) Employee Safety (Section I.1.)
- (b) Customer Service Indicators and Service Guarantee (Section I.2.)
- (c) System Reliability (Three Indicators) (Section I.3.)

1. Employee Safety:

The Employee Safety performance indicator measures SDG&E performance based on it's OSHA rate, a metric established by the Federal Occupational Safety and Health Act (OSHA). The OSHA rate is the number of incidents per 200,000 hours worked. Reward/penalty mechanism – The employee safety indicator establishes a deadband from 5.55 to 6.07 for which no reward or penalty will apply. Beyond the deadband, SDG&E is authorized an incentive rate of \$12,500 per 0.01 change in the rate for a maximum reward or penalty of \$2.18 million. Refer to the table below for details. Rewards or penalties received for employee safety performance are allocated 77% to the electric department and 23% to the gas department revenue requirements based on the percent of authorized operating revenue as provided for in the Phase 1 Cost of Service decision (D.04-12-015).

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**PRELIMINARY STATEMENT**

VI. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

H. PERFORMANCE INDICATORS (Continued)

1. Employee Safety (Continued)

Employee Safety Table:

Benchmark: 5.81 OSHA - reportable frequency rate

Deadband: 5.55 – 6.07

Liveband: +/- 1.75

Unit of change: 0.01

Incentive/(Penalty) per unit: \$12,500 outside the deadband

Maximum incentive/(penalty): +/- \$2.18 million

SDG&E shall also track reportable incidents in the following four categories: meter reading, customer field service, distribution and office. SDG&E shall report this information in its next General Rate Case proceeding.

1. Customer Service Indicators and Service Guarantee

a. Service Guarantee:

SDG&E shall continue its current Service Guarantee. If the utility is unable to meet an appointment commitment with a customer for services at the customer's premises when access is required, SDG&E will credit \$50 to the customer's account. Appointments can be all day or they may be made within appointment windows (a.m./p.m.). The credit does not apply if the customer is notified at least four hours before the end of the appointment period. For establishment of service (turn-on orders), the customer will be credited with the applicable service establishment charge (\$15 or \$30) rather than the \$50. The guarantee does not apply for gas pilot light service or if the utility documents that the reason for the missed appointment was due to natural disaster, labor strike or the service person was called off to work on an Emergency Order. Emergency Orders are excluded as a result of the utility's public safety obligations and include the following events: 1) Fire or explosion; 2) Broken or blowing gas line; 3) High gas pressure; 4) Emergency carbon monoxide; and, 5) Hazardous leaks.

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**PRELIMINARY STATEMENT**

VI. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

H. PERFORMANCE INDICATORS (Continued)

2. Customer Service Indicators and Service Guarantee (Continued)

a. Service Guarantee (Continued)

When an individual customer requests a date for a permanent new service establishment, the utility will turn on new service on the day promised (prior to midnight) or credit the customer's electric instead of the \$50 stated above. The credit does not apply if at least 24 hours notice of a date change is given to the customer. Notice given on an answering machine or to another number designated by the customer is sufficient. For the guarantee to be valid, there must be: 1) Open access to the facility and the meter panel or gas service; 2) All required inspections must be completed and approved; and, 3) No threats or harm to utility employees.

b. Customer Service Indicators:

SDG&E's performance on four Customer Service performance indicators will be measured to ensure appropriate service quality levels are maintained under PBR. Rewards or penalties received for customer satisfaction performance are allocated 77% to the electric department and 23% to the gas department revenue requirements based on the percent of authorized operating revenue as provided for in D.04-12-015. The four indicators that will be measured are as follows:

- (1) Phone / Office Contact Satisfaction – composite measure of customers' satisfaction with their overall experience with SDG&E's Customer Contact Center and Branch Offices.
- (2) Field Visit Satisfaction – measure of customer satisfaction with their overall experience with a field service visit.
- (3) Call Center Responsiveness – measure of how quickly SDG&E responds to customer calls.
- (4) Field Service Order Appointments Provided / Percent Made – measure of the frequency with which SDG&E provides customers with service window appointments and the frequency with which SDG&E meets those commitments.

Reward / penalty mechanism – For Phone / Office Contact, Field Visit, and Call Center Responsiveness, SDG&E is authorized a specific target and deadband for which no reward or penalty will apply. For each of the three indicators, performance beyond the deadband triggers a reward or penalty up to a maximum amount. Refer to individual tables below for details.

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VI. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

H. PERFORMANCE INDICATORS (Continued)

2. Customer Service Indicators and Service Guarantee (Continued)

b. Customer Service Indicators: (Continued)

Phone / Office Contact Satisfaction Table:

Target.....83.4%  
Deadband.....84.4% – 82.4%  
Reward/(Penalty) Liveband...+ /- 5%  
Incentive Rate.....\$10,000 / 0.1  
Maximum Reward / Penalty...\$500,000

Field Visit Satisfaction Table:

Target.....94.1%  
Deadband.....95.1% – 93.1%  
Reward/(Penalty) Liveband...+ /- 5%  
Incentive Rate.....\$10,000 / 0.1  
Maximum Reward / Penalty...\$500,000

Call Center Responsiveness Table:

Target.....80% within 60 seconds  
Deadband.....82% – 78%  
Reward/(Penalty) Liveband...+ /- 5%  
Incentive Rate.....\$30,000 / 0.1  
Maximum Reward / Penalty...\$1,500,000

Field Service Order Appointments Provided/Percent Made:

There are seven bands by which Field Service Order Appointments Provided are assessed in terms of the Percentage of On-Time Arrivals (Percent Made). The maximum Reward or Penalty is + / - \$600,000 and are assessed in increments of \$12,000 per each 0.1% change in Percent On-Time Arrivals (Percent Made) within each of the seven Percent Appointments Provided bands. There is only one deadband area which is found in band > 35%-40% for 99.01-100% On-Time Arrivals Met. The targets, deadbands, and livebands are as follows:

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VI. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

H. PERFORMANCE INDICATORS (Continued)

2. Customer Service Indicators and Service Guarantee (Continued)

b. Customer Service Indicators: (Continued)

- 35% or Below: Target: 100%  
Deadband: none  
Liveband: Penalty only 95.01-100% met
- >35-40%: Target: 99.01%  
Deadband: 99.01-100%  
Liveband: Penalty 94.01-99% met.
- >40-45%: Target: 99.01%  
Deadband: none  
Liveband: Penalty 94.01-99% met; Reward 99.01-100% met
- >45-50%: Target: 98.01%  
Deadband: none  
Liveband: Penalty 93.01-98% met; Reward 98.01-100% met
- >50-55%: Target: 97.01%  
Deadband: none  
Liveband: Penalty 92.01-97% met; Reward 97.01-100% met
- >55-60%: Target: 96.01%  
Deadband: none  
Liveband: Penalty 91.01-96% met; Reward 96.01-100% met
- >60%: Target: 95.01%  
Deadband: none  
Liveband: Penalty 90.01-95% met; Reward 95.01-100% met

Customer Service – Monitor Only Indicators

SDG&E's performance on ten performance indicators will be tracked to monitor the service quality levels. SDG&E will submit quarterly data on these indicators on an annual basis, beginning in 2006 to include data for the year 2005. The following monitor-only measures have been adopted per D.05-03-023:

- (1) Level of Busy Signal
- (2) Estimated Meter Reads
- (3) Missed Appointments
- (4) Problem Resolved on First Visit
- (5) Elapsed Time
- (6) Percentage of Abandoned Calls
- (7) Shortest time to CSR
- (8) Gas Emergency Response Time
- (9) Electric Emergency Response Time
- (10) Complaints

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Senior Vice President  
Regulatory Affairs

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Resolution No. \_\_\_\_\_



**PRELIMINARY STATEMENT**

VI. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

H. PERFORMANCE INDICATORS (Continued)

3. System Reliability

Rewards or penalties for system reliability will be determined based on the utility's performance on three separate performance indicators. These indicators are: 1) the System Average Interruption Duration Index (SAIDI) measurement, 2) the System Average Interruption Frequency Index (SAIFI); and, 3) the Momentary Average Interruption Frequency Index (MAIFI). SAIDI measures the duration of electric service forced and sustained interruptions experienced by customers each year, excluding major events and planned outages. SAIFI and MAIFI both measure the frequency of electric distribution forced outages that occur in a year, excluding major events and planned outages. SAIFI measures sustained outages (5 minutes or greater), whereas MAIFI measures momentary outages (less than 5 minutes). Rewards or penalties received for the system reliability performance indicators are allocated 100% to the electric department revenue requirements.

a. Reward/(Penalty) Mechanism: Rewards and Penalties shall be based on the following parameters (Excluding Major Events and Planned Outages):

<b>Adopted Reliability Incentives</b>			
	<b>SAIDI</b>	<b>SAIFI</b>	<b>MAIFI</b>
Target	68	0.67	0.76
Deadband	+/-2	+/-0.02	+/-0.02
Increment	1	0.01	0.015
Liveband	+/-15	+/- 0.15	+/- 0.30
Reward/(Penalty) per unit	\$250,000	\$250,000	\$50,000
Maximum Reward/(Penalty)	\$3,750,000	\$3,750,000	\$1,000,000

b. Exclusions: The measurement of each of the electric reliability performance indicators excludes planned outages, Major Events, and events that are the direct result of failures in the ISO-controlled bulk power market or other non-utility owned transmission facilities.

Major Events are defined in D.96-09-045 as an event that meets at least one of the following criteria: 1) the event is caused by earthquake, fire or storm of sufficient intensity to give rise to a state of emergency being declared by the government; or, 2) an event that affects more than 15% of the system facilities or 10% of the utility's customers, whichever is less for each event.

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**PRELIMINARY STATEMENT**

VI. ELECTRIC DISTRIBUTION & GAS PERFORMANCE BASED RATEMAKING (PBR) MECHANISM

I. RATEMAKING PROCEDURES

1. Annual Rate Adjustments (ARA's)

SDG&E shall make an annual advice letter filing on or before November 1 to update base margin, according to the Indexing Mechanism (described in Section C), effective January 1 of the following year for each year the PBR is in effect. The advice letter will contain detailed information on forecast calculation using the CPI forecast as published by Global Insight. The filing may also include proposed Z Factor adjustments (described in Section D).

2. Annual PBR Report

SDG&E will file an annual advice letter providing sharable earnings according to the financial sharing mechanism described in Section E and the results of the performance indicators for the previous calendar year. If there are any sharable earnings under the PBR mechanism, the earnings allocated to ratepayers shall be included in rates on January 1 of the subsequent year. If there are any rewards/penalties under the PBR mechanism, the rewards/penalties shall be included in rates on January 1 of the subsequent year upon Commission approval. SDG&E will submit this advice letter on May 1 of the following year, including workpapers detailing operating results for SDG&E's base rates.

3. Rewards and Penalties Balancing Account (RPBA)

Pursuant to Resolution E-3588, the utility shall record rewards and penalties and earnings sharing amounts (net of F&U) under the PBR mechanism to its gas and electric Rewards and Penalties Balancing Account (RPBA). The utility shall file in October of each year an advice letter requesting to amortize the projected RPBA year-end balance in the electric distribution and gas transportation rates effective January 1 of the following year.

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**PRELIMINARY STATEMENT**

Sheet 1

IX. COST OF CAPITAL MECHANISM (CCM)

A. OVERVIEW

Pursuant to Decision D.08-05-035, The Cost of Capital mechanism provides for an adjustment to SDG&E's authorized Return on Common Equity (ROE) if the twelve month average of the A rated utility bond yield changes by more than plus/minus 100 basis points from the benchmark.

B. EFFECTIVE DATE / DURATION

The Cost of Capital Mechanism is established effective May 29, 2008 by the Commission and shall be effective until modified or terminated by further action of the Commission.

C. DESCRIPTION OF MECHANISM

The automatic ROE adjustment mechanism is triggered when the October through September twelve month average of Moody's A rated utility bond yield is more than 100 basis points higher or lower than the benchmark, which is either the October through September average of A utility bond yields from the year of SDG&E's most recent cost of capital proceeding or the most recent year thereafter where the October through September average utility bond yield triggers an automatic adjustment.

Pursuant to Decision D.08-05-035 Conclusion of Law 11, Moody's Aa utility bond interest rates should be used for those utilities having an AA credit rating or higher, Moody's A utility bond interest rates should be used for those utilities under the CCM having an A credit rating, and Moody's Baa utility bond interest rates for utilities having a BBB credit rating or lower. SDG&E has an A credit rating. The Moody's October 2006 - September 2007 average of the A-rated utility bond yield is 6.02%. Should SDG&E's credit rating change during the three-year interval between full cost of capital applications, SDG&E may file a capital structure adjustment application.

When an automatic adjustment is triggered, the costs of capital components are updated and a new rate of return is computed as follows:

- a. The return on common equity is adjusted by one-half of the difference between the A utility bond average and the benchmark.
- b. Costs of long-term debt and preferred stock are updated to reflect actual August month-end embedded costs in the trigger year, forecasted interest rates for variable long-term debt, and new long-term debt and preferred stock scheduled to be issued.
- c. The currently authorized capital structure is used to calculate an updated rate of return, which is filed by advice letter on October 15 of the trigger year to be effective January 1 of the following year.

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